



Texas Higher Education Coordinating Board

INTERNAL AUDIT and COMPLIANCE DEPARTMENT REPORT

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Prepared by:
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OVERVIEW

An External Quality Assurance (EQA) review was conducted at the offices of the Texas Higher Education Coordinating Board (THECB) in Austin, Texas from July 8 to July 12, 2019 for audits conducted from September 1, 2016 to March 31, 2019.

Texas Government Code § 2102 (Texas Internal Auditing Act) requires an internal audit activity be in conformance with the Standards for the Professional Practice of Internal Auditing, the Code of Ethics, contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors (IIA), and with the Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS). These are collectively referred to as the *Standards* in this report.

The overall objective of the EQA review was to determine the extent to which the Internal Audit and Compliance Department (IACD) at THECB is in conformance with the *Standards* and the requirements of the Texas Internal Auditing Act.

The review was performed by Richard Tarr, CIA, CISA and Elizabeth Stepp, CPA, CIA, CGAP, CRMA who attest that they are fully qualified to conduct this EQA review, and are independent in all respects from THECB and the IACD. The reviewers utilized guidance from both the State Agency Internal Audit Forum (SAIAF) Peer Review Program's assessment tool and the IIA's 2017 "Quality Assessment Manual" that include within the scope of the work evaluations and assessments of the following areas:

- The Director, Internal Audit and Compliance's reporting relationship and his communication with the Agency Operating Committee, and the Commissioner of Higher Education;
- The independence and the objectivity of the audit work performed;
- Existing internal audit policies and procedures;

- The risk assessment and annual audit planning process;
- The planning process for individual audit projects;
- The audit methodologies used in performing the work;
- A review of a representative sample of audit workpaper files and reports;
- The workpaper documentation that supported the work performed;
- The support in the workpapers for the conclusions and recommendations in the audit reports;
- How the results of audits are communicated;
- The procedures for following up on audit recommendations; and
- The knowledge, skills, discipline, and training of the staff.

Interviews were also conducted with selected individuals, who included, among others: the Chair of the Board; the Chair of the Agency Operating Committee (AOC); the Commissioner of Higher Education; the Deputy Commissioner for Academic Planning and Policy/Chief Academic Officer; the Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer; the General Counsel; the Director of Internal Audit and Compliance; and the audit staff.

OPINION

It is important to note that the *Standards* are expressed in terms of broad concepts and objectives rather than detailed procedures, and their application requires the exercise of professional judgement. The extent of internal audit policies and procedures and the manner in which they are implemented will depend upon a number of factors such as an audit activity's size and organizational structure, the nature of its audit responsibilities, its philosophy with respect to the degree of operating autonomy appropriate for its staff, and the expectations of its board or governing body and senior management.

Based on the work outlined above, it is the review team's opinion concerning:

The IIA Standards:

For the period under review, the internal audit activity at the THECB “Generally Conforms” to the IIA Standards, and the Code of Ethics. This is the top rating provided within the IIA guidance, with the others being “Partially Conforms” and “Does Not Conform”. For a detailed list of conformance to individual IIA Standards, please see Attachment A. The review team has identified opportunities for further enhancing the internal audit activity, details of which are provided in this report.

The GAO Standards:

For the period under review, the ICAD at the THECB has in place, in all material respects, the appropriate processes and procedures in place to receive a Peer Review Rating of “Pass”. This rating is the highest of the three ratings provided within the GAO Standards, with the other ratings being “Pass With Deficiencies”, and “Fail”. For a detailed list of conformance to individual GAO Standards, please see Attachment B.

The Texas Internal Auditing Act:

As of July 12, 2019, the internal audit activity at the THECB conforms to all requirements.

This report should be sent to the Chair of the Board, the Chair of the Agency Operating Committee, and The Commissioner of Higher Education.



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External Quality Assurance Team Lead



Elizabeth J. Stepp, CPA, CIA, CGAP, CRMA
External Quality Assurance Team Member

OBSERVATIONS

The Director of Internal Audit and Compliance is a CPA (Certified Public Accountant), a CIA (Certified Internal Auditor), a CISA (Certified Information Systems Auditor), and a CFE (Certified Fraud Examiner) with extensive auditing experience in higher education, is very effectively managing the IACD, has a good working relationship with the AOC and is well respected by senior executives at the agency. He is also well respected by the IACD staff. He reports functionally to the AOC and administratively to the Commissioner for Higher Education as required by the Texas Internal Auditing Act.

The IACD has a strong Internal Audit Charter that authorizes the staff to: have full, free, and unrestricted access to all functions, records, property, and personnel; allocate resources; have full and free access to the AOC; set audit frequencies; select audit subjects; determine the scope of work, and apply the techniques required to accomplish audit objectives. All of these are requirements of the *IIA Standards*. Also, the AOC must approve decisions regarding the appointment and removal of the IACD Director. This enables the IACD to be very independent and capable of rendering objective assessments and conclusions when conducting their work. The department also has a very well thought out risk-based annual audit planning process that is approved by the AOC for both internal agency audits and compliance audits at the components.

The interviews conducted with the Board Chair, the AOC Chair, the Commissioner of Higher Education and senior agency management indicated that there is strong support for the scope and type of audit work the IACD conducts. A confidential survey of IACD audit customers conducted during the review indicated that over 99% of those surveyed rated the department excellent and good on 18 different criteria. This is a very positive rating and speaks well of the professionalism and ability of the Director and the audit staff.

A sample of audit workpapers was reviewed and verified that the conclusions and opinions communicated in the audit reports that are issued are appropriately supported. The audit projects were appropriately planned and the work performed was adequately documented in accordance with the *Standards*. There was evidence in the workpapers that the audit work was conducted at a very professional level. The audit programs were appropriately referenced to the audit steps. The tests performed during the audits and the conclusions contained in the audit reports were supported by the work documented in the workpapers. There was evidence that the workpapers are thoroughly reviewed by someone other than the person who performed the work and the Director reviews all the workpapers and the audit reports before they are issued.

OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

While the internal audit activity at THECB generally conforms to the *Standards*, the following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving on the efficacy and value of the audit work being performed. These are not intended to correct a lack of conformance with the *Standards*. They are operational ideas based on the experiences of the external review team from working with other internal audit activities.

1. The department would benefit from enhancing direct supervision of the Internal Audit, Compliance Monitoring, and Federal Compliance functions.

Currently while there is an Internal Audit Lead position that provides project-level assistance to the two internal audit staff members, direct supervision of the three internal audit staff, the four Compliance Monitoring staff, and the Federal Compliance Specialist is provided by the Director. This arrangement requires the Director to review and approve, in detail, the audit planning and

work of eight staff members in addition to a long list of other responsibilities.

The agency would be better served if someone were given day to day supervisory responsibilities over the Internal Audit, Compliance Monitoring, and Federal Compliance functions. While the Director would still have overall responsibility for the quality of the work performed by the staff, his review could be less detailed allowing him the time to deal with higher level concerns at the Board and Commissioner level. This would also allow someone else in the department the opportunity to gain supervisory experience.

Response:

We agree with the recommendation to increase the level of direct supervision over the Internal Audit, Compliance Monitoring, and Federal Compliance functions. The Director, Internal Audit and Compliance, will evaluate current roles and responsibilities within the department, and make changes to achieve enhanced direct supervision. Target date for responsibilities to be re-aligned is by November 1, 2019.

2. Provide the Agency Operations Committee and the Commissioner a periodic report on the status of audit recommendations.

Currently IACD creates and distributes individual follow-up reports on the status of previous audit recommendations for audit and review projects conducted at the agency and the institutions of higher education. Preparing and distributing individual follow-up reports to the Agency Operations Committee and the Commissioner is time consuming and makes it difficult for these recipients to get an oversight view of where there may be delays or issues that would need their attention.

It would be more efficient and effective if IACD maintained and distributed an on-going status report that tracked all outstanding recommendations either from

on-sight audits, desk reviews or agency audits to the Agency Operations Committee and the Commissioner. This report could be a simple spread sheet that includes: a brief description of the recommendation; the date the recommendation was agreed to be implemented by; whether or not it has been implemented; and the name of the person directly responsible for implementation. This spread sheet could even be color coded as to the status of the implementation. "Completed" recommendations could be color coded as green, "in process" coded as yellow, and "past due" coded as red. This report would make it easier for the Agency Operations Committee and the Commissioner to stay current overall on the status of recommendations at both the agency level and at the institution of higher education level.

Response:

We agree with the recommendation to provide high level status reporting on Internal Audit and Compliance Monitoring recommendations. Effective with the fiscal year beginning September 1, 2019, recommendations outstanding will be tracked and a periodic report will be provided to the Agency Operations Committee and the Commissioner.

Attachment A: Summary of IIA Standards

		GC	PC	DNC
Overall Evaluation				
Definition of Internal Auditing				
Code of Ethics				
ATTRIBUTES STANDARDS				
1000	Purpose, Authority, and Responsibility			
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter.			
1100	Independence and Objectivity			
1110	Organizational Independence			
1111	Direct Interaction with the Board			
1120	Individual Objectivity			
1130	Impairments to Independence or Objectivity			
1200	Proficiency and Due Professional Care			
1210	Proficiency			
1220	Due Professional Care			
1230	Continuing Professional Development			
1300	Quality Assurance and Improvement Program			
1310	Requirements of the Quality Assurance and Improvement Program			
1311	Internal Assessments			
1312	External Assessments			
1320	Reporting on the Quality Assurance and Improvement Program			
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "			
1322	Disclosure of Nonconformance			

		GC	PC	DNC
PERFORMANCE STANDARDS				
2000	Managing the Internal Audit Activity			
2010	Planning			
2020	Communication and Approval			
2030	Resource Management			
2040	Policies and Procedures			
2050	Coordination			
2060	Reporting to Senior Management and the Board			
2070	External Service Provider and Organizational Responsibilities for Internal Audit			
2100	Nature of Work			
2110	Governance			
2120	Risk Management			
2130	Control			
2200	Engagement Planning			
2201	Planning Considerations			
2210	Engagement Objectives			
2220	Engagement Scope			
2230	Engagement Resource Allocation			
2240	Engagement Work Programs			
2300	Performing the Engagement			
2310	Identifying Information			
2320	Analysis and Evaluation			
2330	Documenting Information			
2340	Engagement Supervision			
2400	Communicating Results			
2410	Criteria for Communicating			
2420	Quality of Communications			
2421	Errors and Omissions			
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "			
2431	Engagement Disclosure of Nonconformance			
2440	Disseminating Results			
2450	Overall Opinions			
2500	Monitoring Progress			
2600	Resolution of Senior Management's Acceptance of Risks			

Attachment B: Summary of GAO Standards

	Pass	Fail
General (107)		
Independence (59)		
Professional Judgement (9)		
Competence (13)		
Quality Control & Assurance (26)		
Performance (85)		
Planning (52)		
Supervision (3)		
Evidence (23)		
Documentation (7)		
Reporting (44)		